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BALTIMORE, MARYLAND 21202

101 BAY STREET
EASTON, MARYLAND 21601

11350 RANDOM HILLS ROAD
FAIRFAX, VIRGINIA 22030

LAW OFFICES
MILES & STOCKBRIDGE
30 WEST PATRICK STREET
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ROCKVILLE, MARYLAND 20850

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TOWSON, MARYLAND 21204

1701 PENNSYLVANIA AVENUE, N. W.
WASHINGTON, D. C. 20006

September 14, 1988

1 5816
RECORDATION NO. FILE 1238

SEP 14 1988 10 54 AM

Interstate Commerce Commission
Constitution Avenue & 12th Street, NW
Washington, D.C. 20006

INTERSTATE COMMERCE COMMISSION

ATTN: Mildred Lee

Re: Maryland Midland Railway,
Inc. Security Agreement

Dear Ms. Lee,

Per our conversation today, please find enclosed an original copy of the Security Agreement by and between Maryland Midland Railway, Inc., 41 North Main Street, P.O. Box A, Union Bridge, Maryland 21791, and Farmers and Mechanics National Bank, 110 Thomas Johnson Drive, Frederick, Maryland 21701. I hope this will be everything you need to record the Security Agreement.

I am sorry for any trouble this caused you. If you have any further questions, please feel free to contact me.

Sincerely,

Pam Yee

PAM YEE

pmy
Enclosure: Security Agreement

Interstate Commerce Commission
Washington, D.C. 20423

9/21/88

OFFICE OF THE SECRETARY

Pam Yee
Miles & Stockbridge
30 West Patrick Street
Frederick, Maryland 21701

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 9/14/88 at 10:50am, and assigned recordation number(s). 15816

Sincerely yours,

Nanta L. McGee
Secretary

Enclosure(s)

080988:F13-15
RVW

REGISTRATION NO. 15816

SEP 14 1988 10:27 AM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

THIS SECURITY AGREEMENT (hereinafter called the "Security Agreement") is made this 12th day of August, 1988, by and between Maryland Midland Railway, Inc., a Maryland Corporation (hereinafter referred to as "Debtor"), and Farmers and Mechanics National Bank, a national banking association (hereinafter called the "Secured Party").

1. Creation of Security Agreement. The Debtor does hereby execute this Security Agreement in order to secure from the Debtor to the Secured Party (a) the prompt payment of all indebtedness, liabilities and obligations of the Debtor to the Secured Party of any nature whatsoever, both now existing or hereafter created, including without limitation, such indebtedness, liabilities and obligations of the Debtor to the Secured Party which are evidenced by a certain Promissory Note of even date herewith payable to Secured Party in the amount of ONE HUNDRED SIXTY THOUSAND DOLLARS (\$160,000.00) (hereinafter called the "Note") and which arise in connection with or as a result of this Security Agreement, a certain Mortgage of even date herewith by the Debtor in favor of the Secured Party (the "Mortgage"), a certain Consolidation Agreement of even date herewith by and between the Debtor and Secured Party ("Consolidation Agreement"), and a certain Consolidation Agreement Consolidating Security Agreements of even date herewith by and between Debtor and Secured Party ("Consolidation Agreement #2") (with the Note, Mortgage, Consolidation Agreement, Security Agreement, Consolidation Agreement #2 and all other related agreements and documents being hereinafter sometimes collectively called the "Loan Documents"), and (b) the performance of all the terms, conditions and provisions of each of the Loan Documents, and of any note, other security agreement, pledge agreement, guaranty agreement, mortgage, loan agreement, hypothecation agreement, subordination agreement, indemnity mortgage or security agreement, letter of credit application, assignment or any other paper or document previously, simultaneously or hereafter executed and delivered by the Debtor, evidencing, securing, guaranteeing or otherwise in connection with any of the abovementioned indebtedness, liabilities and obligations (hereinafter sometimes collectively called "Obligations") (with such papers and documents being hereinafter considered part of the defined term "Loan Documents"); and the Debtor further agrees with the Secured Party as follows:

2. Creation of Security Interest. The Debtor does hereby grant to the Secured Party a security interest in the collateral set forth in paragraph 3. below, to secure the payment of the Obligations and performances described in paragraph 1. above and as otherwise provided in the Loan Documents.

3. Collateral. The collateral covered by this Security Agreement is as follows:

(a) All of Debtor's accounts including all existing accounts and all accounts hereafter coming into existence;

(b) All of Debtor's contract rights including all existing contract rights and all contract rights hereafter coming into existence;

(c) All instruments held by Debtor regardless of whether they may be in existence at the present time or may be executed in the future and regardless of when they may be acquired by the Debtor;

(d) All chattel paper held by Debtor regardless of whether it may be in existence at the present time or may arise in the future and regardless of when it may be acquired by Debtor;

(e) All interest owned by Debtor now existing or hereafter arising in goods as to which an account for goods sold or delivered or services rendered has arisen or as to which any chattel paper has been executed and delivered to Debtor (herein sometimes called "Goods");

(f) All notes, drafts, acceptances, instruments, documents of title, policies and certificates of insurance, chattel paper, guarantees and securities now or hereafter received by Debtor or in which Debtor has or acquires an interest in connection with its accounts and contract rights;

(g) All interest of Debtor now existing or hereafter acquired in general intangibles, mortgages and all money due or to become due to the Debtor;

(h) All books, records and writings of any kind now existing or hereafter coming into existence of the Debtor in any way related to or pertaining to any collateral;

(i) All equipment and machinery of the Debtor of whatever kind and description, including, but not by way of limitation, all items of equipment and machinery listed on EXHIBIT A attached hereto and made a part hereof;

(j) All proceeds of (including claims thereof or demands thereof and insurance proceeds in connection with) the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims.

4. Future Advances. The Debtor and the Secured Party may enter into other loan transactions in the future pursuant to this Security Agreement and the other Loan Documents; and, if such future advances occur, the Debtor and the Secured Party intend this Security Agreement to act as a Security Agreement covering those transactions. This Security Agreement shall be fully effective and binding on the Debtor and the Secured Party with respect to all Obligations and performances owed to the Secured Party by the Debtor of whatever kind as described in paragraph 1. of this Security Agreement, and whenever and however created to the fullest extent possible under Section 9-204 of the Commercial Law Article of the Annotated Code of Maryland, as in effect on the date hereof. For the purposes of protecting the Secured Party's priorities with respect to such future advances, the Debtor agrees that the Financing Statements filed in connection with this Security Agreement shall remain recorded and may be continued by the Secured Party even if the balance of all debts owed the Secured Party are satisfied. However, if the parties hereto decide that future advances pursuant to this Security Agreement and the other Loan Documents are no longer contemplated and the balance of all debts owed to the Secured Party by the Debtor is satisfied, then this Security Agreement may be terminated and the Financing Statements filed in connection herewith will be likewise terminated.

5. Other Obligations of the Debtor.

(a) Debtor will, on demand of Secured Party, make available to the latter: shipping and delivery receipts evidencing the shipment or delivery of the Goods which gave rise to an account, instrument or chattel paper; completion certificates or other proof of the satisfactory performance of services which gave rise to an account, instrument or chattel paper; a copy of the invoice or bill of lading for each account, instrument or chattel paper.

(b) Debtor will furnish Secured Party with agings of its accounts receivable and accounts payable in such form and at such frequency as Secured Party may from time to time specify.

(c) Debtor will maintain, in accordance with sound accounting practice, accurate records and books of account showing, among other things, all accounts, contract rights, instruments and chattel paper, and the collections thereon; and that Secured Party shall have the right to call at Debtor's place of business at intervals to be determined by Secured Party, and without hindrance or delay, to inspect, audit, check and make extracts from the books, records, ledgers, journals, orders, receipts, correspondence, and other data relating to accounts, contract rights, instruments or chattel paper, or to Debtor's liabilities to Secured Party; and that Debtor will reimburse Secured Party for the entire cost of such inspections, audits, checks and extractions.

(d) Debtor will not factor any of its present or future accounts, nor will Debtor in any other manner or for any other purpose, assign or transfer, either absolutely or as collateral, any of its present or future accounts except in favor of Secured Party.

(e) Debtor shall provide to Secured Party audited financial statements (including balance sheet, income statement and statement of changes in financial position) within ninety (90) days following the end of each fiscal year; and Debtor will permit Secured Party or its nominee to examine all of Debtor's records relating thereto at any time, and to make extracts therefrom at Debtor's expense. Debtor shall at its own expense comply with any and all other financial reporting requirements that the Secured Party may impose from time to time, including, but not limited to, furnishing the Secured Party with monthly financial statements should the Secured Party request the same in writing.

(f) The collateral will be kept in a good state of repair and will not be wasted, destroyed, misused or allowed to deteriorate, ordinary wear and tear excepted. Equipment collateral will be kept and used in the Debtor's railroad operation at various locations along trackage owned or leased by Debtor where the Secured Party may inspect it at any reasonable time, unless the Secured Party consents in writing to its removal. Consent in writing for the removal of collateral for purposes of repair, temporarily, that is, for less than thirty (30) days, is not necessary.

(g) All collateral will be insured at Debtor's expense until this Security Agreement is terminated against all expected risks to which

it is exposed and those which Secured Party may designate, with the policies acceptable to Secured Party and payable to both the Secured Party and Debtor, as their interests appear, and with duplicate policies deposited with Secured Party.

(h) Debtor shall not transfer, create or permit to be acquired any interest in or against any collateral, or permit any charge, including rent and taxes, to remain unpaid to or by any third person without first obtaining the written consent of the Secured Party. If the Debtor should dispose or encumber the collateral in the above manner without first receiving written consent, such action shall constitute a default by the Debtor of this Security Agreement.

(i) Debtor shall at all times keep the collateral and the proceeds from any authorized disposition identifiable and separate from the property of any third person. Cash proceeds shall be separately maintained and shall not be commingled with other cash funds of the Debtor without written consent of the Bank.

(j) Debtor, as Secured Party may request and require, shall procure, execute and deliver to Secured Party any security agreement, financing statements or other writing necessary to create, preserve, protect or enforce Secured Party's rights and interests under this Security Agreement or the other Loan Documents to or in the collateral described in paragraph 3. or in any other collateral agreed to by the parties at a later time.

(k) The Debtor shall at its own expense from time to time replace and repair all parts of the equipment collateral as may be broken, worn, or damaged. In the event of default and foreclosure under the provisions of this Security Agreement, the Secured Party may cause such repairs or replacements to be made. The cost of replacements and repairs made by the Secured Party and cost of necessary labor, supplies or parts furnished by the Secured Party for use on or in connection with the collateral shall become an additional lien on the collateral secured by this Security Agreement and payable on demand with interest at the rate stated in paragraph 6.(e).

(l) This Security Agreement shall remain in effect until such time as all of Debtor's liabilities to Secured Party under this Security Agreement and otherwise have been fully paid and discharged.

(m) Debtor will pay and discharge when due all taxes, levies, and other charges on its property.

(n) Debtor will not create, incur or assume any liability for borrowed money, except for borrowings from Secured Party, without first obtaining the prior written approval of Secured Party.

(o) Debtor will not assume, guarantee, endorse or otherwise become liable in connection with the obligations of any person, firm or corporation except by endorsement of instruments for deposit or collection or similar transactions in the ordinary course of business.

(p) Debtor will not enter into any merger or consolidation, or sell or lease all or substantially all of its assets, or liquidate or dissolve.

(q) Debtor will not purchase or acquire the obligation or stock of any person, firm or corporation or other enterprise whatsoever (unless the Secured Party consents to same) other than direct obligations of the United States.

(r) Debtor will not directly or indirectly declare or pay any dividend (except dividends payable solely in shares of its stock) on, or order or make any other distribution on account of any shares of any class of its stock other than preferred now or hereafter outstanding; redeem, retire, purchase or otherwise acquire (except for a consideration consisting solely of shares of its stock) any shares of any class of its stock now or hereafter outstanding or in the treasury; or award bonuses or make loans to any executive or officer of the Debtor, or set aside any sum or property for any such purpose.

(s) Debtor will not materially alter, amend or change its capital structure or line or scope of business or engage in business ventures other than those in which it is presently engaged or change in any substantial respect its method of operating the business in which it is engaged.

6. Default.

(a) Misrepresentation or misstatement in connection with, noncompliance with, or nonperformance of any of the Debtor's obligations or agreements as in this Security Agreement set forth shall constitute a default. If any default shall occur hereunder; or if any default shall be made in the payment of any sum owing and secured hereby or any part or

installment thereof; or if the collateral or any part thereof shall be seized or levied upon under any process; or if the Debtor shall fail to keep the collateral in good condition and repair; or if, in an unauthorized and prohibited transaction, the Debtor sells, assigns, creates a security interest in, or transfers its right, title, and interest in and to the collateral or its right of possession thereto or any part thereof; or in the event of the filing of a petition in bankruptcy by or against the Debtor or the commencement of any proceedings under the bankruptcy laws by or against the Debtor; or if a receiver of the Debtor or of its property shall be appointed; or if the Debtor shall make an assignment for the benefit of creditors, then there is a default and the Secured Party may exercise its rights of enforcement under the Maryland Uniform Commercial Code as in effect on the date of this Security Agreement. In addition, the Secured Party shall have such other rights and remedies as shall be provided in this Security Agreement and the other Loan Documents, and as otherwise provided by the Laws of this State. Additionally, as set forth in all the other Loan Documents, it is provided that any default in any of the Loan Documents shall automatically be considered a default hereunder, and any default hereunder shall automatically be considered a default under all the other Loan Documents as well.

(b) Secured Party may enter upon Debtor's premises at any reasonable time to inspect the collateral, and in the case of any event of a default, Secured Party may require Debtor at its expense to assemble the collateral and make it available to Secured Party at a place reasonably convenient to both parties, and it shall not be necessary for the Secured Party to remove the collateral but the Debtor will permit the Secured Party and hereby authorizes and empowers the Secured Party, without the need or necessity for any notice or court proceeding or the requirement that Secured Party resort to judicial process of any kind, to keep such Goods in the place of business of the Debtor as hereinabove identified and to remove any locks thereon and put its own lock on such premises or on any other premises where such collateral may be located, thereby denying access to Debtor, until five (5) days after the sale of the collateral. The Debtor waives any and all claims of any nature, kind, or description which it has or may claim to have against the

Secured Party or its representatives, by reason of taking possession of (with or without judicial process) or selling, maintaining and storing the collateral on Debtor's property or otherwise.

(c) The Secured Party may remedy in any reasonable manner or waive any default of Debtor without waiving the default remedied or any other prior or subsequent default.

(d) Notice mailed to Debtor, at its address as it appears in this Security Agreement, ten (10) days before the date of public sale of the collateral or the date after which private sale of the collateral will take place shall constitute reasonable notice to the Debtor and shall comply with the provisions of the Maryland Uniform Commercial Code.

(e) If there shall be any default under the terms of this Security Agreement or any of the Loan Documents, and if by reason of such default the Note and other Obligations secured by this Security Agreement, whether present or future, shall become due and payable by reason of acceleration, demand, or otherwise, then each of the respective loans, notes or other moneys, payment of which are secured by this Security Agreement, shall bear interest at the agreed rate for each of the respective loans, notes or debts; and any and all sums which, under this Security Agreement or the Maryland Uniform Commercial Code, are secured by the collateral or are chargeable as against the proceeds from a sale of collateral or are otherwise chargeable under the Loan Documents as against the Debtor shall bear interest at that interest rate which is equal to the highest interest rate being charged for any of the respective loans secured by this Security Agreement at the time the expenditures or sums are spent by the Secured Party.

(f) In the event of default hereunder, Secured Party may, in its sole and absolute discretion, sell as scrap or for salvage value at public or private sale all track, rails, railroad ties, spikes, switches, and other such items which are attached to the real estate of the Debtor, separate and apart from the real estate to which such items are attached. Sale of such items by the Secured Party for their scrap or salvage value shall be deemed a commercially reasonable sale of such items in accordance with the Maryland Uniform Commercial Code.

7. Acceleration Clause. If default be made in performance of any of the terms of this Security Agreement or of any of the other Loan

Documents, or in the payment of the Note or any other debts or notes secured hereby or any portion thereof, including interest as and when due, then, and in that event, all the rest or any portion of such Note, debts, other notes, and other sums otherwise payable by Debtor to Secured Party remaining unpaid, whether due or not, may, without notice, at the Secured Party's option, immediately become due and payable.

8. Surplus or Deficiency After Default. If for any reason the collateral herein set forth shall fail, upon disposal by the Secured Party for default, to satisfy the Note, the Obligations, and all other debts, loans, notes or other monies, payment of which is secured by this Security Agreement or allowable under the Maryland Uniform Commercial Code, then the Debtor shall pay the Secured Party the deficiency. However, if after disposal of the collateral and after payment of all sums secured by this Security Agreement and otherwise payable under the Maryland Uniform Commercial Code there is a surplus of funds, then the Secured Party agrees to pay the same over to the Debtor, or to whomever may be legally entitled to the same.

9. Right of Assignment. The Secured Party shall have the right to discount, sell, pledge, negotiate, or otherwise dispose of the Note and of any other notes given hereunder without in any way prejudicing or affecting its security interest hereunder, and, should any of such notes mature and remain unpaid, action may be brought and judgment obtained and collected on such notes by any holder thereof without in any way prejudicing or affecting the rights of the Secured Party, or the terms and conditions of this Security Agreement.

10. Application of Law. Unless legally inconsistently stated herein or legally otherwise defined in this Security Agreement, the rights and obligations of each of the respective parties hereto shall be as defined and set forth in Title 9 of the Maryland Uniform Commercial Code.

11. Reasonable Expenses in Case of Default. The Debtor agrees that in case of default under the terms of this Security Agreement (including default under the other Loan Documents) that reasonable expenses incurred by the Secured Party with respect to disposal of the collateral to obtain payment for monies secured hereby shall include, but not be limited to, an amount for attorneys' fees as provided in the Note, and a reasonable amount payable for auctioneer's or broker's fees plus payment for

advertising and labor performed under their direction. All other fees and charges rightfully chargeable to the Debtor under the Maryland Uniform Commercial Code and the other Loan Documents in event of a default shall be allowed to the Secured Party as long as reasonable, and shall be secured by this Security Agreement.

12. Other Security Interests. Except for the security interest created herein, there is no adverse lien, security interest or encumbrance of any kind in or on the collateral created by the Debtor except for those listed as follows: Security Agreement by and between Debtor and Secured Party dated September 30, 1983.

13. Proceeds. All proceeds of whatever kind and whatever nature, generated from the disposition of any collateral covered by this Security Agreement (see paragraph 3.) shall also act as collateral under this Security Agreement. No dispositions of collateral are authorized under this Security Agreement without the written consent of the Secured Party; and this provision, including proceeds as further collateral hereunder, shall not be interpreted as an authorization to the Debtor to dispose of collateral without written consent of the Secured Party.

14. Mutual Agreements.

(a) "Debtor" and "Secured Party" as used in this Security Agreement include the heirs, executors, administrators, personal representatives, successors and assigns of those parties.

(b) This Security Agreement includes all amendments and supplements thereto (with all other Loan Documents being herein incorporated as a part hereof), and all assignments, instruments, documents and other writings submitted by Debtor to Secured Party pursuant to this Security Agreement, but neither Debtor nor Secured Party shall be bound by any undertaking not expressed in writing.

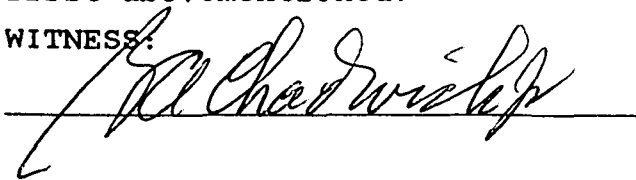
15. Secured Party's Obligation. The Secured Party has, contemporaneous with execution of this Security Agreement, extended credit to the Debtor up to the maximum amount of ONE HUNDRED SIXTY THOUSAND DOLLARS (\$160,000.00), as is evidenced by the Note; this Security Agreement, and other Loan Documents.

16. Waiver of Jury Trial. The parties hereto hereby waive trial by jury in any action or proceeding to which the Debtor and the Secured Party may be parties, arising out of or in any way pertaining to this

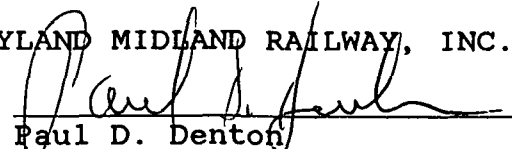
Security Agreement. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Security Agreement. This waiver is knowingly, willingly and voluntarily made by the Debtor, and the Debtor hereby represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. The Debtor further represents that it has been represented in the signing of this Security Agreement and in the making of this waiver by independent legal counsel, selected of its own free will and that it has had the opportunity to discuss this waiver with counsel.

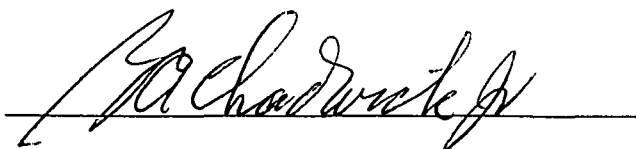
IN WITNESS WHEREOF, the parties hereto have executed this Security Agreement by affixing their signatures under seal on this day and year first abovementioned.

WITNESS:



MARYLAND MIDLAND RAILWAY, INC.

BY:  (SEAL)
Paul D. Denton
President



FARMERS AND MECHANICS NATIONAL BANK


BY:  (SEAL)
Philip D. Topper, Sr.
Vice President

EXHIBIT A

All Railroad Machinery, Railroad Equipment and other equipment now owned and hereafter acquired by the Debtor together with all equipment, parts, and accessories used in connection with said property, and all additions and accessions thereto, including, but not limited to, the following items which are now in the possession of and owned by the Debtor:

ROLLING STOCK

- 1 EMD Model GP-9 Locomotive, No. 793
- 1 EMD Model GP-9 Locomotive, No. 794
- 1 EMD Model GP-9 Locomotive, No. 812
- 1 EMD Model F-7 Locomotive, No. 100
- 1 EMD Model F-7 Locomotive, No. 101
- 1 Passenger Car Diner No. 58
- 1 Passenger Car Open Air No. 59
- 1 Passenger Car Lounge No. 60
- 1 Hopper Car Ballast No. 1564
- 1 Flat Car No. 6001
- 1 Flat Car No. 6002
- 1 Flat Car No. 6003
- 1 Box Car No. 8001
- 1 Box Car No. 8002
- 1 Box Car No. 8003
- 1 Ballast Regulator, Model 2FW-J, Serial No. 2FW-652 (Junk)

TRACK:

All Track, Ties, Switches, Switch Parts, Ballast Spikes and other component parts of the Railway Bed of every kind and description and wherever situate.

All office equipment and furnishings of every kind and description, including, but not by way of limitation, calculators, typewriters, computers, printers, disk drives, copy machines, desks, chairs and tables.

MAINTENANCE OF WAY:

- 2 Back hoes
- 1 Brush Cutter
- 1 Ballast Regulator
- 1 Tamper
- 1 Railroad Crane

1 Burro Crane

1 Tie Inserter

1 Steam Cleaner

1 Sand Loader

1 Diesel Generator

4 Locomotive Jacks

1 Sand Blaster

Communication System - Radios

7 Cab-mounted Radios

8 Hand-held Radios

Vehicles

1 Railmounted Prentice Loader

2 Maintenance-of-Way Trucks

1 Road vehicle - Mechanics Truck

Small hand held tools

Compressor

081088:F13-28
RVW

CERTIFICATION

COUNTY OF FREDERICK, STATE OF MARYLAND, TO WIT:

This is to certify that the undersigned, a Notary Public in and for the above-listed County and State, has examined the original Security Agreement made the 12th day of August, 1988, by and between Maryland Midland Railway, Inc., whose main office is 41 North Main Street, P.O. Box A, Union Bridge, Maryland 21791, and Farmers and Mechanics National Bank, a National Bank and Association, with its main office at 110 Thomas Johnson Drive, Frederick, Maryland 21701, and that in all respects, the attached copy is a true and correct copy of the original.

Pamela M. Summers (Jm)

NOTARY PUBLIC

My Commission Expires:
July 1, 1990

No. **8-258A010**
Date **SEP 14 1988**
Fee \$ **13.00**
ICC Washington, D.C.

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